

Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-08 NSC-05
TRSE-00 SS-15 STR-06 OMB-01 CEA-01 COME-00
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L-03 IGA-02 H-01 FRB-03 /084 W
-----118762 241555Z /47

R 241345Z JAN 78
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC 5764
INFO AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO

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PASS TREASURY

EO 11652 NA
TAGS ETRD EFIN BR
SUBJECT: REPORTS REGARDING US BANK LENDING ABROAD PROMPT
BRAZILIAN COMMENTS

REF: A) BRASILIA 10671 B) BRASILIA 0410 C) SECSTATE 014792
D) BRASILIA 0130

1. SUMMARY- SEVERAL SEPARATE REPORTS AND ACTIONS CONNECTED WITH
LENDING BY US BANKS OVERSEAS HAVE PROMPTED COMMENTS IN THE
BRAZILIAN PRESS AND BY THE GOB. THE PRESS SEE THE ACTIONS RAISING
QUESTIONS ABOUT BRAZIL'S CREDITWORTHINESS AND REFLECTING PRESSURES
IN THE US FOR REDUCED US BANK LENDING TO BRAZIL. THE GOB IS SEEKING
TO DEAL WITH THE SPECIFIC ISSUES IN A LOW-KEY WAY, WHILE EMPHASIZING
PUBLICLY BRAZIL'S FAVORABLE FOREIGN DEBT PROFILE AND BRAZIL'S
WILLINGNESS TO PROVIDE FULL INFORMATION ON ITS ECONOMY. SIGNIFI-
CANTLY, THE GOB HAS WELCOMED DISCLOSURE OF DATA ON BRAZIL DEBT
TO US BANKS AND THE FINANCE MINISTER HAS SAID THAT BRAZIL DOES NOT
OPPOSE THE IMF PROVIDING ECONOMIC INFORMATION TO PRIVATE COMMERCIAL
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BANKS. END SUMMARY.

2. MORGAN GUARANTY: THE BRAZILIAN PRESS HAS ATTEMPTED TO INTERPRET
THE WITHDRAWAL OF MORGAN GUARANTY FROM A LARGE SYNDICATED LOAN FOR
LIGHT, S.A. IN DECEMBER 1977 AS AN INDICATION THAT IT WANTS TO CUT
BANK LENDING TO BRAZIL (REF A). THE MORGAN REPRESENTATIVE IN BRAZIL
AND THE CENTRAL BANK HAVE DENIED THIS INTERPRETATION IN CONVERSATION

WITH FINATT. THEY HAVE REFERRED TO THE TECHNICAL NATURE OF THE PROBLEM (I.E., DISAGREEMENT OVER CONTRACTUAL PROVISIONS FOR LOCATION OF LEGAL JURISDICTION IN THE CASE OF SUITS IN THE FUTURE). THEY HAVE ADVISED THE EMBASSY THAT MORGAN OFFICIALS FROM NEW YORK WILL MEET WITH THE CENTRAL BANK IN BRASILIA ON JAN 24 TO DISCUSS THE MATTER (AN EARLIER MEETING SCHEDULED FOR JAN 11 WAS POSTPONED). ARY PINTO OF THE FINANCE MINISTRY HAS COMMENTED TO FINATT THAT THE LIGHT LOAN WAS OVERSUBSCRIBED AND MORGAN'S PARTICIPATION WAS NOT ESSENTIAL. HE ALSO SUGGESTED THAT NO OTHER BANKS HAVE SAID TO THE GOB THAT THEY SHARE MORGAN'S DESIRE TO INSIST ON NEW YORK AS THE SITE FOR LEGAL PROCEEDING. IN ANY CASE, THE GOB IS ANXIOUS TO TREAT THE MORGAN MATTER AS AN ISOLATED CASE AND TO AVOID A PUBLIC CONFRONTATION

3. IRS DECISION. SPECULATION IN THE PRESS AND COMMENTS TO FINATT BY US BANK REPRESENTATIVES REVEAL GROWING APPREHENSION REGARDING POSSIBLE REVOCATION BY IRS OF US TAX CREDITS FOR TAXES PAID TO THE GOB ON REMITTANCES OF INTEREST PAYMENTS TO US BANKS (REF C). THE LOGIC OF THE PROPOSED REVOCATION IS WIDELY ACKNOWLEDGED IN THAT A LARGE PART OF THE TAXES PAID TO THE GOB ARE SUBSEQUENTLY REBATED. NONETHELESS, IT HAS BEEN SUGGESTED SUCH A DECISION WOULD RESULT IN HIGHER BORROWING COSTS FOR BRAZIL AND PERHAPS ACT AS A DISINCENTIVE TO LEND TO BRAZIL. THE GOB HAS NOT COMMENTED PUBLICLY ON THE PENDING IRS DECISION BUT FINANCE MINISTRY GENERAL COUNSEL FRANCIS-LIMITED OFFICIAL USE

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CO DORNELLES HAS SPECIFICALLY SAID TO FINATT THAT IMPLEMENTATION WITHIN ONE YEAR WOULD HAVE DISRUPTIVE EFFECTS. HE HAS SUGGESTED THAT ANY REVOCATION SHOULD APPLY ONLY TO NEW LOANS, MEANING THAT US BANKS COULD CONTINUE TO ENJOY FULL TAX CREDITS FOR THE LIFE OF LOANS ALREADY CONTRACTED. CLEARLY, THE GOB WANTS VERY MUCH TO MINIMIZE AND STRETCH OUT ANY POSSIBLE ADVERSE IMPACT THE IRS RULING MIGHT HAVE.

4. COMPTROLLER'S RULING. THE RELEASE OF A DRAFT INTERPRETATIVE RULING BY THE COMPTROLLER OF THE CURRENCY (OCC) HAS RECEIVED CONSIDERABLE ATTENTION IN THE BRAZILIAN PRESS. HE ATTEMPT TO CODIFY PRACTICE WITH REGARD TO THE DEFINITION OF FOREIGN BORROWERS FOR PURPOSES OF CALCULATING LENDING LIMITS IS SEEN AS A MOVE TO LUMP FOREIGN BORROWERS SO AS TO RESTRICT US BANK LENDING TO LDCS, INCLUDING BRAZIL. US BANK REPRESENTATIVES HAVE EXPRESSED SIMILAR CONCERNS TO FINATT, STATING IN SOME CASES THAT BANK EXAMINERS HAVE ALREADY TIGHTENED THEIR STANDARDS OVER THE PAST YEAR. THEY BELIEVED THAT THE EXAMINERS' MORE STRINGENT APPROACH REFLECTS PRESSURES PARTICULARLY IN THE CONGRESS TO BE QUOTE TOUGHER ON LOANS TO BRAZIL END QUOTE. ONE NEWSPAPER (JORNAL DO BRASIL, 11 JAN 1978) SPECIFICALLY REFERRED TO SENATOR PROXMIRE AND THE SENATE BANKING COMMITTEE AS SUPPORTING THE OCC PROPOSED RULING. THE ARTICLE ALSO SUGGESTED

INDIRECTLY THAT A STATE DEPT SPOKESMAN AND A WASHINGTON NEWSPAPER ADMITTED THAT PRESSURES TO REDUCE LENDING BY US PRIVATE BANKS COULD LEAD TO DIRECT US GOVERNMENT LENDING AND ENHANCED USG BARGAINING POWER. GOB OFFICIALS HAVE REFRAINED FROM PUBLIC COMMENT ON THE COMPTROLLER'S DRAFT RULING BUT HAVE EXPRESSED TO THE EMBASSY THEIR CONCERN THAT THE RULING MAY HAVE UNFAVORABLE EFFECTS ON US BANK LENDING TO BRAZIL. COPIES OF THE DRAFT WERE DELIVERED TO THE CENTRAL BANK AND FINANCE MINISTRY AND SUBSEQUENT

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COMMUNICATIONS WITH FINATT SUGGEST THE GOB IS PREPARING COMMENTS FOR SUBMISSION TO THE COMPTROLLER WITHIN THE 60 DAY REVIEW PERIOD (REF B)

5. US AGENCIES' REPORT ON BANK LENDING ABROAD.
PRESS COVERAGE OF THE JOINT RELEASE BY OCC, THE FEDERAL RESERVE, AND FDIC OF DATA ON US BANK LENDING ABROAD REVEALED PUBLICLY IN BRAZIL MORE DETAILED INFORMATION ON THAT PART OF BRAZIL'S FOREIGN DEBT THAN HAD PREVIOUSLY BEEN AVAILABLE. IT REPORTED THAT BRAZIL IS THE FOURTH LARGEST BORROWER IN THE WORLD FROM US COMMERCIAL BANKS, WITH TOTAL DEBT OF \$10.6 BILLION OUTSTANDING AS OF 30 JUNE 1977. ACCORDING TO PRESS ACCOUNTS, \$6.5 BILLION WAS TO THE PRIVATE SECTOR (EXCLUDING BANKS) \$3.7 BILLION TO THE PUBLIC SECTOR, AND \$331 MILLION TO PRIVATE BANKS. AN EDITORIAL IN THE ESTADO DE SAO PAULO (17 JAN 1978) SEE THE REPORT AND THE SENATE FOREIGN RELATIONS COMMITTEE STUDY (SEE PARA 6 BELOW) AS QUOTE EVIDENCE OF A CAMPAIGN THAT IS GAINING FORCE IN THE US AGAINST BANK LOANS TO LDCS END QUOTE. ON THE OTHER HAND, THE EDITORIAL ALSO COMMENTED THAT THE DATA ARE AD-

VANTAGEOUS TO BRAZIL MAINLY BECAUSE THEY SHOW BRAZIL TO HAVE THE BEST DEBT PROFILE OF THE TOP 4 BORROWERS (I.E., ONLY 31.4 PERCENT OF BRAZIL'S DEBTS TO US BANKS ARE DUE WITHIN ONE YEAR. A SPOKESMAN LIMITED OFFICIAL USE

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FOR THE CENTRAL BANK CONVEYED TO FINATT A SIMILARLY FAVORABLE RESPONSE TO THE JOINT REPORT AND SAID ITS PLANNED SEMI-ANNUAL RELEASE IS WELCOMED.

6. SENATE REPORT: PRIVATE BANKS AND THE IMF.

BRAZILIAN NEWSPAPERS (JORNAL DO BRASIL, ESTADO DE SAO PAULO, AND GAZETA MERCANTILE) HAVE PUBLISHED SEVERAL ARTICLES ON A REPORT BY THE ECONOMIC POLICY SUBCOMMITTEE OF THE SENATE FOREIGN RELATIONS COMMITTEE. THE STUDY REPORTEDLY DEALS WITH LDC FOREIGN DEBT (ESTIMATED AT \$150-200 BILLION), THE PORTION ATTRIBUTABLE TO US PRIVATE BANKS (ESTIMATED AT \$50 BILLION), AND AVERAGE DEBT SERVICE RATIOS (REPORTEDLY 20 PERCENT OF EXPORTS TO MEET PAYMENT OF BOTH AMORTIZATIONS AND INTEREST). THE REPORT IS SEEN IN PART BY BRAZILIANS AS FURTHER EVIDENCE OF CONCERN WITH OVEREXPOSURE OF US BANKS IN LDCS AND OF PRESSURES FOR US BANKS TO MODERATE THEIR LENDING ABROAD, INCLUDING TO BRAZIL. HOWEVER, THE MAIN FOCUS OF BRAZILIAN COMMENT ON THE STUDY IS ITS REPORTED REFERENCE TO SUGGESTIONS BY TREASURY SECRETARY BLUMENTHAL OF WAYS TO IMPROVE RELATIONS BETWEEN PRIVATE COMMERCIAL BANKS AND THE INTERNATIONAL MONETARY FUND. PRESS COMMENTS REFLECT SKEPTICISM REGARDING CLOSER COORDINATION BETWEEN BANKS AND THE IMF. SIGNIFICANTLY, HOWEVER, MINISTER OF FINANCE SIMONSEN AND CENTRAL BANK DIRECTOR BRACHER HAVE STATED PUBLICLY THAT THEY ARE NOT OPPOSED TO THE IMF PROVIDING ECONOMIC DATA ON MEMBER COUNTRIES TO PRIVATE COMMERCIAL BANKS. SIMONSEN HAS STATED THAT IN THE PAST HE OPPOSED THE IDEA OF PARALLEL BANK/IMF FINANCING OR ANY OTHER DIRECT LINKING OF PRIVATE BANK LOANS TO IMF ANALYSIS AND STANDBYS. SIMONSEN HAS SAID THAT RELEASE OF ECONOMIC INFORMATION BY THE IMF WOULD NOT PRESENT ANY PROBLEM FOR BRAZIL BECAUSE BRAZIL QUOTE BELIEVES IN AND ALREADY PRACTICES FULL DISCLOSURE END QUOTE. SIMONSEN ALSO COMMENTED ON BRAZIL'S DEBT SERVICE RATION WHICH IS MORE THAN DOUBLE THE 20 PERCENT CITED IN THE SENATE STUDY BUT IN HIS VIEW IS NOT OF SERIOUS CONCERN BECAUSE BRAZIL MAINTAINS A HIGH LEVEL OF FOREIGN EX-

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CHANGE RESERVES AND ITS EXPORTS ARE NOW EXPANDING FASTER THAN ITS FOREIGN DEBT.

7. COMMENT. ANY ONE OF THE SEVERAL ACTIONS OR REPORTS DEALING WITH US BANK LENDING ABROAD MAY HAVE ONLY LIMITED DIRECT EFFECT ON US BANK ATTITUDES TOWARD BRAZIL. HOWEVER, THE COMBINED IMPACT OF THEIR

NEALY SIMULTANEOUS OCCURRENCE HAS PROMPTED SPECULATION BY THE PRESS IN BRAZIL ABOUT THE COUNTRY'S CREDITWORTHINESS AND ABOUT THE ABILITY OR INCLINATION OF US BANKS TO CONTINUE LARGE-SCALE LENDING TO BRAZIL. THE GOB IS VERY SENSITIVE REGARDING ITS IMAGE IN THE INTERNATIONAL FINANCIAL COMMUNITY. THUS IT IS ATTEMPTING TO RESOLVE THE MORGAN GUARANTY MATTER AND TREAT THE DRAFT COMPTROLLER'S RULING AND THE IRS ISSUE IN A LOW-KEY MANNER. THEIR OBJECTIVE IS TO MINIMIZE ADVERSE SUBSTANTIVE AND PUBLIC RELATIONS EFFECTS. SIMULTANEOUSLY THEY ARE CONFIDENTLY REFERRING TO THE COUNTRY'S FAVORABLE DEBT PROFILE AND EMPHASIZING THEIR OPENNESS WITH REGARD TO INFORMATION ON THE BRAZILIAN ECONOMY. SIMONSEN'S POSITION ON THE IMF PROVIDING INFORMATION TO PRIVATE BANKS IS A PARTICULARLY SIGNIFICANT SHIFT FROM BRAZIL'S OPPOSITION TO ANY SUCH INITIATIVE JUST ONE YEAR AGO. THE GOB'S CONFIDENCE IN DEALING WITH THE VARIOUS ISSUES CONCERNING US BANK LENDING TO BRAZIL UNDOUBTEDLY REFLECTS THE IMPROVED ECONOMIC PERFORMANCE IN 1977 (I.E., REDUCED INFLATION AND ELIMINATION OF THE TRADE DEFICIT) AND ALSO, MORE SPECIFICALLY, IMPROVED CONDITIONS IN ITS FOREIGN BORROWING. AT THE END OF 1977, THE GOB OBTAINED FINANCING IN THE SWISS BOND MARKET AND FROM SAUDI ARABIA FOR THE FIRST TIME (REF D). ALSO THE GOB ANNOUNCED RECENTLY (PERHAPS PARTLY IN RESPONSE TO NEGATIVE PRESS COMMENT ON THE COSTS OF BORROWING ABROAD) THAT THE BNDE WILL CONCLUDE IN THE NEAR FUTURE A \$250 MILLION LOAN WITH A SYNDICATE LED BY BANK OF AMERICA, WITH 10 YEAR MATURITY, 3 YEARS GRACE AND AN INTEREST SPREAD OF 2 PERCENT OVER LIBOR. THESE TERMS REPRESENT CONSIDERABLE IMPROVEMENT FOR BRAZIL WHICH HAS BEEN PAYING A SPREAD OF 2.125 PERCENT FOR 8 YEAR MONEY.

8. REQUEST. IN ORDER TO RESPOND TO GOB REQUESTS, THE EMBASSY WOULD APPRECIATE RECEIPT AS SOON AS POSSIBLE OF COPIES OF THE JOINT OCC/ LIMITED OFFICIAL USE

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RED/FDIC REPORT AND OF THE SENATE FOREIGN RELATIONS COMMITTEE REPORT.
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Message Attributes

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